

TESTIMONY
of
JEANNE BONDAREVSKIS
before the
PUBLIC UTILITIES COMMISSION

FOR AN
ABBREVIATED RATE FILING

for
PROVIDENCE WATER

June 2002

**PROVIDENCE WATER SUPPLY BOARD
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JEANNE BONDAREVSKIS**

1 **Q. Please state your full name and title?**

2 A. Jeanne Bondarevskis, Director of Finance for the
3 Providence Water Supply Board (Providence Water).
4

5 **Q. How long have you been employed by Providence Water?**

6 A. I have been employed since March of 1987 or approximately
7 15 years.
8

9 **Q. Would you please state your education, background and
10 professional associations?**

11 A. I have a Master's Degree in Business Administration from
12 Bryant College. I graduated Magna Cum Laude from
13 Providence College with a Bachelor of Science Degree,
14 majoring in Accounting.
15

16 I have worked for Providence Water since March of 1987.
17 Prior to becoming Director of Finance, I was responsible
18 for the Accounting area, the preparation of various
19 reports, assistance to outside consultants and/or
20 auditors, and I was Acting Director of Finance. I have
21 participated to some degree in all of Providence Water's
22 PUC and Division filings dating back to Docket 1900.
23

24 Since August of 1994, I have been a member of the New
25 England Water Works Association Program Committee. I
26 also am a member of the American Water Works Association
27 and New England Water Works Association. Since January
28 of 2002, I have been Treasurer of the Rhode Island Water
29 Works Association.
30

31 **Q. Please explain your duties and responsibilities.**

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1 A. As Director of Finance I am responsible for four areas or
2 Divisions. They are Accounting, Training, Financial
3 Planning and Management Information Systems.
4

5 **Q. What is the purpose of your testimony?**

6 A. Pursuant to Commission Rule 2.10, ABBREVIATED FILING
7 REQUIREMENTS FOR NON-INVESTOR-OWNED UTILITIES, Providence
8 Water is submitting this abbreviated filing to increase
9 rates. Finance Department staff or I have prepared all
10 of the financial data, analysis, schedules and this
11 testimony to support our request. An explanation of the
12 adjustments made, exhibits included, and the calculation
13 of proposed tariffs follows. I have also included an
14 Exhibit, and Tables which provide the information
15 required of water utilities pursuant to R.I.G.L. § 39-3-
16 12.1 (See Exhibit I, Table A through E).
17

18 **Q. Please provide some history that explains Providence**
19 **Water's recent rate filings.**

20 A. Providence Water filed an Abbreviated rate filing that
21 was effective February 1, 2000. A General rate filing
22 was then submitted which adjusted rates effective January
23 1, 2001. These recent rate orders are as follows:

			Revenue
<u>Docket</u>	<u>Type of filing</u>	<u>Effective</u>	<u>Requirement</u>
2961	Abbrev. Filing	02/01/00	\$38,135,486
3163	Full Filing	01/01/01	41,147,456

28
29 Since our last General rate case, Docket 3163, became
30 effective, several cost factors have increased
31 significantly which require a rate adjustment at this

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1 time.

2 **Q. Why has Providence Water sought to increase rates through**
3 **an Abbreviated filing and not a General rate filing?**

4 A. Providence Water requires a limited revenue increase.
5 The major cost increases are to categories of expense
6 specifically identified in the Commission Rule 2.10. In
7 summary, Providence Water is seeking a revenue increase
8 well below the 25% limit identified in the Rule; we are
9 requesting increases to test year amounts for salaries
10 and wages, employee benefits, property taxes, and one
11 other operational account. We are not seeking an
12 increase for debt service, chemicals, insurance,
13 infrastructure replacement funding or purchased water.
14 We have however, addressed debt service, insurance and
15 restricted funding in our schedules to show the test year
16 and projected rate year amounts.

17
18 Providence Water has prepared this filing with in-house
19 staff to reduce costs (we will be using outside counsel).
20 We are primarily requesting this increase to cover
21 contractual increases in employee related expenses, as
22 well as a significant increase in property taxes
23 primarily due to revaluation. In the Commission's order
24 in Docket 3163, Providence Water was ordered to review
25 our insurance needs. We have done this and Joseph
26 Spremulli, Director of Support Services, has filed
27 testimony on this issue.

28

29 **Q. Will any other staff members from Providence Water be**
30 **filing testimony?**

31 A. Yes. Boyce Spinelli, Deputy General Manager, Paul

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1 Gadoury, Director of Engineering and Paul Titzmann,
2 Director of Special Projects will also file testimony.

3
4 **Q. What will the abbreviated filing increase cover?**

5 A. The majority of the increase is to cover fringe benefits
6 and retirement, salaries and wages, and projected
7 property tax increases.

8
9 The adjustments have been prepared to address known and
10 measurable increases such as; contractual increases to
11 test year salaries and wages, to provide for property tax
12 increases, to keep our insurance funding at Docket 3163
13 levels, to adjust fringe benefits and retirement expense
14 to contractual levels, and to request additional rate
15 case (regulatory commission) expense.

16
17 **Q. What is the test year?**

18 A. We have used the calendar year ending December 31, 2001
19 as the test year.

20
21 **Q. Have you made any changes to the test year?**

22 A. Yes we have made normalizing adjustments such as removing
23 year end revenue accruals, adding back overhead applied
24 costs, removing a one time insurance expense and
25 reclassifying some expenses. These adjustments will be
26 further addressed later in my testimony.

27
28 **Q. What is the pro-forma or rate year?**

29 A. We have used the calendar year ending December 31, 2003
30 as the rate year.

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1 **Q. Have you proposed a significant change in revenue**
2 **recovery among rate classes?**

3 A. No, I have not. We have proposed to apply the additional
4 revenue request across the board to all rate categories.

5
6 **Cost of Service Expense Adjustments**

7 **Q. Would you please list the cost of service schedules?**

8 A. Yes. Schedule A, Summary Schedule of Adjustments,
9 identifies the seven items that Providence Water is
10 seeking an adjustment for in this filing. Schedule B
11 identifies the Debt Service and Restricted funding
12 requirements. Schedule C identifies Salaries and Wages.
13 Schedule D is for Property Taxes. Schedule E identifies
14 the proposed Insurance amounts. Schedule F shows the
15 Pension and Other Benefit calculations. Schedule G
16 depicts the estimated Regulatory Commission and Rate Case
17 expense. Schedules H and I provide comparisons of
18 revenues and expenses for the past three fiscal years as
19 required by section 2.10(d)(3) of the Commission rules.

20
21
22 **Q. Please review the schedules in order?**

23 A. Certainly. Schedule A summarizes our total adjustments
24 to the seven test year items that are requested in this
25 filing. The total net expense adjustment is \$4,079,466.

26
27
28 **Q. How was the Debt Service and Restricted funding schedule**
29 **prepared?**

30 A. As depicted on Schedule B, we started with the test year
31 amounts for debt service and restricted funds. We then

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1 adjusted them to the annual amounts currently in rates.
2 This is shown in the column, Adjusted TY 2001.

3
4 We then reviewed the calendar year 2003 debt service
5 amounts and cash needs. We are proposing no changes to
6 the current funding levels.

7
8 Schedule B-1 shows the debt service by issue and
9 restricted fund. The amounts are shown for calendar year
10 2001 (the test year), calendar year 2003 (the rate year)
11 and the net adjustment. I have also shown fiscal years
12 2002 through 2005 for comparative purposes. Schedule B-2
13 through B-4 provide the detail by issue for the test year
14 and rate year as required by Commission Rule 2.10(d)(5).

15
16 As stated above there is no request for additional
17 funding in this filing.

18
19 **Q. Are there any non-financial changes to any restricted**
20 **funds?**

21 A. Yes. Providence Water will be establishing a restricted
22 fund for Western Cranston Distribution system
23 improvements. In prior dockets, this was shown as a
24 small part of the CIP fund. The amount currently in
25 rates, \$150,000, covers the debt service incurred for the
26 acquisition of the Western Cranston Distribution system.
27 The new fund is shown on Schedule B as the Western
28 Cranston Fund. Providence Water proposes to continue to
29 fund \$150,000 per year into this restricted fund and have
30 it convert to cash uses as the Western Cranston System
31 Acquisition bonds are paid off. The cash proceeds would
32 then be used solely for the additional CIP projects

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1 needed in the Western Cranston area.

2
3 We have also proposed that the \$500,000 annual funding
4 for the 102" valves continue for an additional two years.
5 The funding would have finished in calendar year 2002,
6 however, our Engineering department proposes to expand
7 the scope of the project, and requires additional
8 funding. Please see Paul Gadoury's testimony for full
9 details.

10
11 **Q. How were salaries and wages adjusted?**

12 A. As shown on Schedule C, we took test year actual
13 expenditures and adjusted the amount for any positions
14 that were not included for a full twelve month period.
15 This normalizing adjustment added 1.63% to the test year
16 expenses. We then increased the adjusted test year
17 amount for the contractual increases¹ of 4% to be
18 implemented 07/01/02 and 07/01/03. The net compounded
19 percentage increase is 8.16%, the requested increase is
20 \$1,089,149. We then allocated the net adjustment in the
21 same proportion as the adjusted test year expenses were
22 incurred, as indicated on Schedule C-1.

23
24 **Q. How were property taxes adjusted?**

25 A. As shown on Schedule D, we estimated our fiscal year
26 ending 2003 tax expense by contacting the tax assessor's
27 offices for their anticipated tax rates. We then applied
28 these new rates to the current property valuations for
29 each community to arrive at the FY 2003 estimated tax
30 expense. We then applied one half of the average annual

¹ Reference Article VI of the Union Contract, excerpted in Appendix.

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1 percentage increase in taxes, as calculated on Schedule
2 D-1, to the fiscal year 2003 amount. This provides the
3 projected calendar year 2003 property tax amount. An
4 increase of \$894,722 is requested, the bulk of which is
5 caused by the recent revaluation increase imposed upon us
6 in Scituate's recent revaluation, which we have appealed.
7

8 **Q. What is the status of the Scituate property tax appeal?**

9 A. As mentioned, Providence Water has appealed our property
10 tax revaluation in Scituate and also appealed Scituate's
11 refusal to apply our DEM Forest Land classification for
12 much of the land we own in the Town of Scituate. Both
13 appeals are still pending before the Tax Board in
14 Scituate and will probably end up in court. Ultimate
15 resolution of the appeal could take years unless a
16 settlement is reached, but our settlement efforts have
17 been rebuffed. We have included the full estimated
18 calendar year amount, for Scituate, because we have to
19 pay the tax while the appeal process runs its course.
20

21 **Q. Has Providence Water addressed Insurance expenses?**

22 A. Yes. We are proposing a \$414,220 decrease. Please see
23 Schedule E. In Docket 3163, Providence Water agreed "in
24 its next rate filing to submit a study of the recommended
25 level of insurance premiums and injuries and damages
26 expense to be included in rates."
27

28 This has been done. Mr. Joseph Spremulli, Director of
29 Support Services, has filed testimony to address this
30 issue. Providence Water proposes to keep the level of
31 funding at \$359,000 per year. This is the annual funding

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1 amount approved in Docket 3163. While expenses are
2 projected to rise (expenses were \$773,220 in the test
3 year) existing funds will be used to offset additional
4 insurance expenses. This should reduce excess funds in
5 the insurance fund in a gradual manner.

6
7 We have therefore reduced the test year expense by
8 \$414,220 down to the \$359,000 previously approved annual
9 amount.

10
11 **Q. How were the fringe benefits and City pension adjusted?**

12 A. Please see Schedule F. We are requesting a \$2,066,480
13 increase. We used our test year expenses as a base. We
14 then analyzed the projected fringe benefit increases and
15 broke them down into four categories. They are
16 basically: 1, set by Union Contract²; 2, based on salary
17 increases; 3, health insurance increases; and 4, city
18 retirement actuarial study. Schedule F provides the
19 breakdown by major fringe benefit type for the test year.
20 Benefits numbered 1 through 5 are those increased by the
21 Union Contract. Schedule F-1 provides the calculation of
22 the percentage increases applied to the test year.
23 Benefits numbered 6 and 7, FICA and the ½ % wage
24 assignment³, were increased based on the compounded
25 payroll increase of 8.16%, as described above in the
26 salary testimony and Schedule C. An adjustment for Blue
27 Cross, United Healthcare and Delta Dental (benefits

² Reference Articles XX through XXIV of the Union Contract,
excerpted in the Appendix.

³ Reference Article XX, Section 5 of the Union Contract.

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1 numbered 8, 9 and 10) were based on the actual historical
2 percentage increase from fiscal year 2000 to fiscal year
3 2002, applied to the calendar year 2001 amount. These
4 percentages are calculated on Schedule F-2. This was
5 done to adjust calendar year 2001 amounts up to the
6 projected calendar year 2003 amounts. The city
7 retirement test year amount (benefit number 11) was
8 increased to a figure equal to 80% of the fiscal year
9 2003 amount as set forth on Page 5 of the Buck
10 Consultants report for "Water". This report excerpt is
11 marked as Schedule F-3. The 80% figure was provided by
12 the City's Finance Director, Alex Prignano, as the
13 retirement funding percentage to be utilized by the City
14 in fiscal 2003.

15
16 **Q. What has Providence Water proposed for rate case expense?**

17 A. We are requesting a \$43,334 increase. As shown on
18 Schedule G, we first determined what our test year
19 expenses were by docket or type. We then estimated which
20 of the expenses may re-occur during the pro-forma year.
21 We have attempted to estimate these costs. There have
22 been a number of Commission and Division initiated
23 Dockets over which we have no control. We need to have
24 sufficient funding to hire experienced PUC counsel.

25
26 Also, the proportional share of PUC expenses is also
27 included on this schedule. The amount has increased
28 dramatically in the past few years. Providence Water has
29 projected what the pro-forma amount for this expense may
30 be.

31
32 Finally, we have incorporated an estimate of our legal
33 expense for this abbreviated filing. We are not

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1 including any accounting or rate consultant expense as
2 all of the work was done in-house. We have also
3 estimated the Division expense. While the estimated
4 amounts may be high or low, the amounts can be set to
5 actual expenses once they are finalized and known.
6

7 **Q. Are there any normalizing adjustments to the test year**
8 **revenues as shown on Schedule H?**

9 A. Yes. We had to remove the year end unbilled revenue
10 accrual and a correction to a wholesale account. The
11 correction was recorded in calendar year 2001, yet most
12 of the adjustment applied to the July through December
13 2000 time period. We removed this additional revenue.
14

15 **Q. Are there any normalizing adjustments to the test year**
16 **expenses as shown on Schedule I?**

17 A. Yes. We removed the overhead applied amount included in
18 the test year. This is the amount of expense that is
19 capitalized at fiscal year end from our Project
20 Accounting. It is basically an accounting entry which
21 capitalizes expenses to an asset account. These amounts
22 have to be added back to reflect our full expense level
23 for a normal test year. We also reclassified some
24 expense from regulatory commission expense to contract
25 services legal. This was necessary to adjust the
26 regulatory commission expense for only PUC related
27 matters. Lastly, we removed an expense related to
28 restricted insurance funding that was a one-time event.
29 At fiscal year end June 30, 2001, we booked an entry to
30 increase the prior insurance reserve to \$645,500. The
31 amount is shown as a liability on the balance sheet.
32 This increased insurance expense was for accounting

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1 purposes only, it was a non-cash expense.

2
3 **Cost Allocation and Rate Design**

4 **Q. Have you made any significant changes to the cost**
5 **allocation and rate design authorized in Providence**
6 **Water's last general rate case, Docket 3163?**

7 A. No. The cost allocation and rate design schedules, CA-1
8 through CA-31, have been prepared using schedules from
9 prior rate filings. The schedules can be broken down
10 into the two main sections, cost allocations from CA-1
11 through CA-8a (there is no CA-6 or CA-7) and rate design
12 CA-20 through CA-31 (there is no CA 9-19, 21-14 or 26-
13 28). I will review each schedule in the order presented.

14
15 **Q. Would you please explain the Cost Allocation schedules?**

16 A. Yes. Schedule CA-1 shows the adjusted test year revenues
17 and expenses walked up to the pro-forma amounts. The
18 adjustments to revenues project what revenues would be
19 using the average consumption amounts used in this filing
20 at existing rates, as shown on CA-2. The majority of the
21 adjustment is due to the projected rate year using a
22 slightly lower consumption than the test year based on a
23 four year average. We have increased private fire. We
24 have also increased miscellaneous revenues from test year
25 amounts, by the projected increases addressed in Mr.
26 Titzmann's testimony.

27
28 Adjusted test year expenses are increased by the amounts
29 shown in the Summary Schedule A. When this is balanced
30 against our total projected revenues and net operating
31 income, revenues should increase \$5,448,798 or 12.99%.

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1
2 Schedule CA-2 shows the calculation of projected revenues
3 at existing rates. Retail metered revenue was derived by
4 using a four year consumption average. Non-metered water
5 revenue, primarily service charges, were derived by using
6 current numbers of meter or services multiplied out at
7 existing rates. Schedule CA-2a shows the calculation of
8 the retail service charge and private fire amounts.
9

10 **Q. Please continue in order.**

11 A. Certainly. On CA-3 the adjusted test year expense at the
12 NARUC account detail level is provided. These expenses
13 post forward from Schedule I. The next three columns
14 show how the detailed cost of service adjustments are
15 posted. The Note column cross references the adjustments
16 to the appropriate supporting schedule. There is one
17 service level adjustment⁴, the proposed payroll
18 adjustment is shown in its own column and the balance of
19 adjustments are posted as other operations adjustments.
20 The combined adjustments sum the three columns of
21 adjustments and adds across to the pro-forma amounts by
22 account.
23

24 Schedule CA-4 shows the adjusted test year revenues by
25 source, tariff, rate class, etc. as required by PUC rule
26 2.10(d)(4). This cross references to the adjusted test
27 year revenue amounts shown on Schedule H.
28

29 Schedule CA-5 shows the calculation of the Net Operating
30 Revenue using pro-forma expenses reduced for
31 miscellaneous revenue. The net operating revenue

⁴ Reference Paul Gadoury's testimony concerning Sludge Removal.

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1 allotment was calculated at 1.5% (the same amount as in
2 Docket 3163), to derive the Net Revenue Requirement, or
3 total revenue derived from rates (excluding
4 miscellaneous) of \$46,159,749.

5
6 **Q. How was pro-forma metered water consumption derived?**

7 A. We first determined the pro-forma metered water sales as
8 shown on CA-8a. This was done by averaging the
9 consumption from fiscal 1999 through fiscal 2002. For
10 fiscal 2002, we used the most recent 12 month usage of
11 June 2001 through May 2002 for wholesale. We used our
12 year to date retail consumption and added in for three
13 additional cycles that have yet to be billed. The final
14 fiscal 2002 consumption amounts should be very close to
15 the amounts used. We chose the most recent four years
16 because we felt the four year average would provide a
17 better representation of pro-forma sales.

18
19 The only adjustment we made was to reduce Bristol County
20 Water Authority to their fiscal year 2001 amount. During
21 fiscal year 2002, Bristol County Water Authority is
22 making major improvements to their treatment plant. They
23 have shut down their plant and are relying 100% on supply
24 from Providence Water. This is not typical and is a one
25 time issue. According Mr. Pasquale DeLise, executive
26 director, fiscal year 2001 is indicative of a normal
27 year's usage.

28
29 The resulting pro-forma sales of 29,544,055 hcf appears
30 reasonable in comparison to the four fiscal years used on
31 schedule CA-8a. These amounts have been used to
32 calculate pro-forma metered revenue as shown on CA-2.

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1

2 **Q. Would you please explain the rate design schedules?**

3 A. Schedule CA-20 calculates the new rates with the an
4 across the board revenue increase. The increase in
5 revenues calculated on CA-1 is linked to this schedule.
6 It is increased by a small amount and is applied to the
7 five categories of rates shown; retail consumption,
8 retail service charge, wholesale, public and private fire
9 supply.

10

11 Schedule CA-25 shows the calculation of revenues at
12 present and proposed rates. The projected revenues are
13 very close to the Total Revenues indicated on CA-1.

14

15 **Q. Please continue with the balance of the schedules?**

16 A. The next schedule CA-29 shows the rate impact of the
17 proposed rates by customer class and various meter sizes
18 and consumption amounts.

19

20 Schedule CA-30 shows the rate comparison to existing
21 rates. And the final schedule, CA-31 is a slight
22 revision to CA-1, with the inclusion of the detail of the
23 additional revenue requirement.

24

25 **Q. Has the utility served a notice of the abbreviated rate**
26 **filing on the Department of Attorney General and other**
27 **interested parties?**

28 A. Yes. Included in this filing is a copy of the letter to
29 this effect and the letters to other affected parties.

30

31 **Q. Have you addressed the items included in section 2.10 of**

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1 **the Commission's Rules of Practice and Procedure in this**
2 **filing?**

3 A. Yes, I believe I have. The appendix includes an index
4 which lists each item with the reference to its location
5 in the filing.

6
7 **Q. Do you have any final comments?**

8 A. Yes. We have prepared this abbreviated filing in an
9 effort to increase rates to cover our known and
10 measurable cost increases. We have requested decreases
11 to some costs, in an attempt to keep the additional costs
12 at reasonable levels. We have proposed a very simple
13 method of adjusting the rates. We are available to
14 present testimony at the earliest convenience of the
15 Commission. We are hopeful that we can get a decision
16 that authorizes the new rates for January 1, 2003.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes.

STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION

DOCKET NO. _____

ATTESTATION UNDER RULE 2.7

OF THE RULES OF PRACTICE AND PROCEDURE

OF THE PUBLIC UTILITIES COMMISSION

I, Jeanne Bondarevskis, in conformance with Rule 2.7 of the Rules of Practice and Procedure of the Public Utilities Commission, hereby attest that the facts contained in my direct testimony with exhibits and supporting documents are true and correct to the best of my knowledge, information, and belief. All changes and differences between the books and test year data and any changes in the manner of recording said data during the test year have been expressly noted.

Jeanne Bondarevksis

STATE OF RHODE ISLAND
PROVIDENCE COUNTY

Subscribed and sworn to me this ____ of June, 2002.

Notary Public